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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC Mail Processing
Section

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Washington, DC
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SEC FILE NUMBER
8-53174

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/10 AND ENDING 12/31/10
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **E*TRADE Capital Markets, LLC**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

One Financial Place

440 South LaSalle Street

Suite 3030

(No. and Street)

Chicago

Illinois

60605

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

James H. Rojek

Chief Financial Officer

312-294-7846

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche LLP

(Name - if individual, state last, first, middle name)

111 South Wacker Drive

Chicago

IL

60606

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

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OATH OR AFFIRMATION

We, David Grove and James Rojek, affirm that, to the best of our knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to E*TRADE Capital Markets, LLC as of and for the year ended December 31, 2010, are true and correct. We further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

David L. Grove

David L. Grove

CEO

E*TRADE Capital Markets, LLC

February 23, 2011

Date



Starr Slyby

Notary Public

James H. Rojek

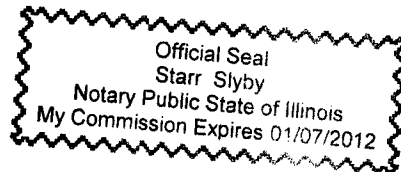
James H. Rojek

CFO

E*TRADE Capital Markets, LLC

February 23, 2011

Date



Starr Slyby

Notary Public

E*TRADE CAPITAL MARKETS, LLC

(SEC I.D. No. 8-53174)

**Statement of Financial Condition as of December 31, 2010,
Independent Auditors' Report and Supplemental Report
on Internal Control**

PUBLIC DOCUMENT

Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 as a **PUBLIC DOCUMENT**.



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INDEPENDENT AUDITORS' REPORT

To the Board of Managers and Member of
E*TRADE Capital Markets, LLC
Chicago, Illinois

We have audited the accompanying statement of financial condition of E*TRADE Capital Markets, LLC, (the "Company"), a wholly owned subsidiary of E*TRADE Institutional Holdings, Inc., a direct, wholly owned subsidiary of E*TRADE Financial Corporation, as of December 31, 2010, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of E*TRADE Capital Markets, LLC as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 23, 2011

E*TRADE CAPITAL MARKETS, LLC

STATEMENT OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2010

(In thousands)

ASSETS

Cash and equivalents	\$	38,240
Trading securities		61,081
Receivables from brokers, dealers and clearing organizations		24,668
Goodwill		121,881
Other intangibles, net		24,937
Other assets		<u>2,364</u>
 TOTAL ASSETS	 \$	 <u>273,171</u>

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:

Securities sold, not yet purchased	\$	54,735
Accounts payable, accrued and other liabilities		6,653
Payables to Parent and affiliated companies		<u>1,705</u>

TOTAL LIABILITIES		63,093
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MEMBER'S EQUITY		<u>210,078</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	<u>273,171</u>
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See notes to statement of financial condition.

E*TRADE CAPITAL MARKETS, LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2010

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — E*TRADE Capital Markets, LLC (the “Company”) is a wholly owned subsidiary of E*TRADE Institutional Holdings, Inc., a direct, wholly owned subsidiary of E*TRADE Financial Corporation (the “Parent”). The Company, an Illinois limited liability company, is a broker-dealer registered with the Securities and Exchange Commission (“SEC”), a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”), a member of the National Stock Exchange and a member of the Chicago Stock Exchange.

Nature of Operations — The Company operates as a market maker in equity securities, primarily those traded on the NASDAQ Stock Market, the New York Stock Exchange, the OTC Bulletin Board, Pink Sheets, Grey Sheets, American Depositary Receipts and Foreign Ordinaries. A market maker provides a fair and orderly market for securities traded and must generally be ready to buy or sell when other buyers or sellers are not available. The Company also engages in proprietary trading. In November 2010, the Company transferred the clearance and settlement of its domestic equity securities trading business to another clearing broker. The Company is no longer self-clearing as of December 2010 and now clears all of its trading business through other clearing brokers.

Use of Estimates — The statement of financial condition was prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and related notes for the period presented. Actual results could differ from management’s estimates. Certain significant accounting policies are noteworthy because they are based on estimates and assumptions that require complex and subjective judgments by management. Changes in these estimates or assumptions could materially impact the Company’s financial condition. Material estimates in which management believes near-term changes could reasonably occur include: the valuation of goodwill and other intangibles; the valuation of trading securities and the valuation and expensing of share-based payments.

Fair Value — Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value for its financial instruments and for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, the Company determines the fair value for nonfinancial assets and nonfinancial liabilities on a nonrecurring basis as required during impairment testing or other accounting guidance. See Note 3 – *Fair Value Disclosures*.

Estimated Fair Value of Financial Instruments — The Company believes that the amounts presented for financial instruments on the statement of financial condition consisting of cash and equivalents, receivables from brokers, dealers and clearing organizations and other assets, accounts payable, accrued and other liabilities and payables to Parent and affiliated companies to be reasonable estimates of fair value.

Cash and Equivalents — The Company considers all highly liquid investments with original or remaining maturities of three months or less at the date of purchase, that are not required to be segregated under federal or other regulations, to be cash equivalents.

Trading Securities — Securities transactions are recorded on a trade-date basis. Trading securities and securities sold, not yet purchased are reported at fair value.

Goodwill and Other Intangibles, net — Goodwill and other intangibles, net represents the excess of the purchase price over the fair value of net tangible assets acquired through the Company's business combinations. The Company tests goodwill and intangible assets for impairment on at least an annual basis or when certain events occur. The Company evaluates the remaining useful lives of other intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Other Assets — Included in other assets are stock ownership in Depository Trust Clearing Corp., NSX Holdings, Inc., and CHX Holdings, Inc., which are carried at cost, which approximates fair value. The Company also holds 450 shares of Series A Convertible Preferred Stock of CHX Holdings, Inc.

Share-Based Payments — The Company participates in the Parent's share-based employee compensation plans. The Parent and the Company record share-based payments expense in accordance with the stock compensation accounting guidance. The Company records compensation cost at the grant date fair value of a share-based payment award over the vesting period less estimated forfeitures. The underlying assumptions to these fair value calculations are discussed in Note 7 — *Employee Share-Based Payments and Other Benefits*.

Income Taxes — The Company is a single-member LLC, and as such is not subject to federal or state income tax as taxable income is allocated to its member for inclusion in the member's tax returns. As a result, E*TRADE Institutional Holdings, Inc. will include the income from the Company in its tax returns.

New Accounting and Disclosure Guidance — Below is the new accounting and disclosure guidance that relates to activities in which the Company is engaged.

Improving Disclosures about Fair Value Measurements

In January 2010, the FASB amended the disclosure guidance related to fair value measurements. The amended disclosure guidance requires new fair value measurement disclosures and clarifies existing fair value measurement disclosure requirements. The amended disclosure guidance requires separate presentation of purchases, sales, issuances and settlements of Level 3 instruments and was effective January 1, 2011 for the Company. The Company's disclosures about fair value measurements will reflect the adoption of the requirement for separate presentation of purchases, sales, issuances and settlements of Level 3 instruments in 2011. The remaining amended disclosure guidance became effective January 1, 2010 for the Company. The Company's disclosures about fair value measurements reflect the adoption of the remaining disclosure guidance in Note 3 — *Fair Value Disclosures*.

2. RECEIVABLES FROM BROKERS, DEALERS, AND CLEARING ORGANIZATIONS

Receivables from brokers, dealers, and clearing organizations consist of the following (in thousands):

Receivables from brokers and dealers	\$ 743
Receivables from clearing organizations	20,848
Deposits with clearing organizations	<u>3,077</u>
Total	<u>\$ 24,668</u>

3. FAIR VALUE DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Unobservable inputs that are significant to the fair value of the assets or liabilities.

The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

Recurring Fair Value Measurement Techniques

The criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. For equity securities, the Company's definition of actively traded is based on average daily volume and other market trading statistics. The fair value of trading securities and securities sold, not yet purchased is determined using listed or quoted market prices and are categorized in Level 1 or Level 2 of the fair value hierarchy. There have been no significant transfers between levels within the fair value hierarchy during 2010.

Recurring Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	December 31, 2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<u>Assets</u>				
Trading Securities				
Domestic equities	\$ 47,278	\$ 1,484	\$ -	\$ 48,762
American Depository Receipts	2,280	3,183	-	5,463
Foreign equities	6,072	784	-	6,856
Total	<u>\$ 55,630</u>	<u>\$ 5,451</u>	<u>\$ -</u>	<u>\$ 61,081</u>
<u>Liabilities</u>				
Securities sold, not yet purchased				
Domestic equities	\$ 47,179	\$ 764	\$ -	\$ 47,943
American Depository Receipts	1,376	1,345	-	2,721
Foreign equities	3,334	737	-	4,071
Total	<u>\$ 51,889</u>	<u>\$ 2,846</u>	<u>\$ -</u>	<u>\$ 54,735</u>

4. GOODWILL AND OTHER INTANGIBLES, NET

The Company performed an annual test of goodwill for impairment and deemed no adjustment necessary. At December 31, 2010, the Company held goodwill at a carrying value of \$121.9 million.

At December 31, 2010, the Company held identifiable intangible assets with finite lives of \$24.9 million (net of accumulated amortization expense of \$36.9 million).

Intangible assets with finite lives, which are primarily amortized on an accelerated basis, consist of the following (dollars in thousands):

	<u>Weighted Average Useful Life (Years)</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Net Amount</u>
Customer relationship	21	\$ 61,820	\$ (36,883)	\$ 24,937

5. NET CAPITAL REQUIREMENT

The Company is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, which requires that the Company maintains minimum net capital equivalent to the greater of \$1.0 million or 6-2/3% of aggregated indebtedness, as these terms are defined. At December 31, 2010, the Company had net capital, as defined, of \$44.3 million, which was \$43.3 million in excess of its required net capital of \$1 million.

Dividends are anticipated to be made to the Parent within the first six months of 2011, subject to applicable SEC and FINRA limitations.

The Company has entered into an agreement with BNY ConvergeX Execution Solutions LLC, a wholly-owned subsidiary of BNY ConvergeX Group, LLC, which allows the Company to include its proprietary assets as allowable assets in its net capital computation. This agreement conforms to the requirements related to the capital treatment of assets in the proprietary account of a correspondent ("PAIB") and to permit the correspondent to use PAIB in its capital computations. At December 31, 2010, the balance at the clearing broker was \$7.8 million, which is recorded in Receivables from brokers, dealers and clearing organizations on the statement of financial condition.

The Company has entered into an agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, a wholly-owned subsidiary of Bank of America Corporation, which allows the Company to include its proprietary assets as allowable assets in its net capital computation. This agreement conforms to the requirements related to the capital treatment of assets in the proprietary account of a correspondent ("PAIB") and to permit the correspondent to use PAIB in its capital computations. At December 31, 2010, the balance at the clearing broker was \$12.6 million, which is recorded in Receivables from brokers, dealers and clearing organizations on the statement of financial condition.

The Company has entered into an agreement with E*TRADE Clearing LLC that allows the Company to include its proprietary assets as allowable assets in its net capital computation. This agreement conforms to the requirements related to the capital treatment of assets in the proprietary account of a correspondent ("PAIB") and to permit the correspondent to use PAIB in its capital computations. At December 31, 2010, the balance at the clearing broker was \$0.2 million, which is recorded in Receivables from brokers, dealers and clearing organizations on the statement of financial condition.

6. RELATED PARTY TRANSACTIONS

The Parent provides the Company systems, telecommunication, occupancy, management assistance and general and administrative support as needed.

The Company received order flow from E*TRADE Securities LLC, an affiliated company.

The Company received clearing services from E*TRADE Clearing LLC, an affiliated company.

7. EMPLOYEE SHARE-BASED PAYMENTS AND OTHER BENEFITS

In 2005, the Parent adopted and the shareholders approved the 2005 Stock Incentive Plan (the "2005 Plan") to replace the 1996 Stock Incentive Plan (the "1996 Plan") which provides for the grant of nonqualified or incentive stock options and awards to officers, directors, key employees and consultants for the purchase of newly issued shares of the Parent's common stock at a price determined by the Board of Directors of the Parent (the "Board") at the date the option is granted. The Parent does not have a specific policy for issuing shares upon stock option exercises and share unit conversions; however, new shares are typically issued in connection with exercises and conversions. The Parent intends to continue to issue new shares for future exercises and conversions.

In June 2010, a 1-for-10 reverse stock split of the Parent's common stock became effective. In accordance with the 2005 Plan, the appropriate 1-for-10 adjustments were made to the shares authorized, issued and outstanding. Under the 2005 Plan, the remaining unissued authorized shares of the 1996 Plan, up to 4.2 million shares were authorized for issuance. Additionally, any shares that had been awarded but remained unissued under the 1996 Plan that were subsequently canceled, would be authorized for issuance under the 2005 Plan, up to 3.9 million shares. In May 2009 and 2010,

additional 3.0 million and 12.5 million shares, respectively, were authorized for issuance under the 2005 Plan at the Parent's shareholders' annual meetings in each of those respective years. As of December 31, 2010, 14.0 million shares were available for grant under the 2005 Plan.

Employee Stock Option Plans

Options are generally exercisable ratably over a four-year period from the date the option is granted and most options expire within seven years from the date of grant. Certain options provide for accelerated vesting upon a change in control. Exercise prices are generally equal to the fair market value of the shares on the grant date.

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option pricing model based on the assumptions, specific to the Company, noted in the table below. Expected volatility is based on a combination of historical volatility of the Parent's stock and implied volatility of publicly traded options on the Parent's stock. The expected term represents the period of time that options granted are expected to be outstanding. The expected term is estimated using employees' actual historical behavior and projected future behavior based on expected exercise patterns.

The risk-free interest rate is based on the U.S. Treasury zero-coupon bond where the remaining term approximates the expected term. The dividend yield is zero as the Parent has not, nor does it currently plan to, issue dividends to its shareholders.

	Year Ended December 31, 2010
Expected volatility	78%
Expected term (years)	4.2
Risk-free interest rate	2%
Dividend yield	—

The Company's weighted-average fair value of options granted was \$8.74 for 2010. Intrinsic value of options exercised were less than \$0.01 million for the year ended December 31, 2010.

A summary of the Company's option activity under the stock option plan is presented below:

	Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	139	\$ 144.92		
Transfers, net ⁽¹⁾	4	\$ 109.36		
Granted	13	\$ 14.60		
Exercised	—	\$ —		
Canceled/forfeited	(10)	\$ 125.85		
Outstanding at December 31, 2010	<u>146</u>	\$ 133.96	3.41	\$ 32
Vested and expected to vest at December 31, 2010	<u>144</u>	\$ 135.45	3.38	\$ 30
Exercisable at December 31, 2010	<u>113</u>	\$ 151.47	3.04	\$ 5

⁽¹⁾Transfers, net refer to the transfer of employees between subsidiaries of the Parent.

As of December 31, 2010, there was \$0.4 million of total unrecognized compensation cost related to non-vested options. This cost is expected to be recognized over a weighted-average period of 1.2 years.

Restricted Stock Units

The Parent issues restricted stock units to the Company's employees. Each restricted stock unit can be converted into one share of the Parent's common stock upon vesting. The units are issued at the fair market value on the date of grant and vest ratably over the period, generally two to four years. The fair value is calculated as the market price upon issuance.

A summary of non-vested restricted stock unit activity for the Company is presented below:

	Units (in thousands)	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	34		
Transfers, net ⁽¹⁾	9		
Issued	24		
Released	(38)		
Canceled/forfeited	(2)		
Outstanding at December 31, 2010	<u>27</u>	0.95	\$ 432
Vested and expected to vest at December 31, 2010	<u>25</u>	0.93	\$ 397

⁽¹⁾Transfers, net refer to the transfer of employees between subsidiaries of the Parent.

As of December 31, 2010, there was \$0.2 million of total unrecognized compensation cost related to non-vested units. This cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of restricted stock units vested was \$0.6 million for the year ended December 31, 2010.

401(k) Plan

The Parent has a 401(k) salary deferral program which includes eligible employees of the Company who have met certain service requirements. The Company matches certain employee contributions; additional contributions to this plan are at the discretion of the Company.

8. LINE OF CREDIT

The Company has established a \$20.0 million intraday line of credit and a \$50.0 million overnight line of credit with E*TRADE Bank, a wholly owned indirect subsidiary of the Parent, to finance the Company's operations. Loans under this arrangement bear interest at the Federal Funds rate plus 0.5%. The loans are payable on demand and are collateralized by securities owned by the Company. At December 31, 2010, there were no amounts outstanding under this line of credit.

The Company has also established a \$30.0 million line of credit with E*TRADE Financial Corporation, to finance the Company's operations. Loans under this arrangement bear interest at the Federal Funds rate plus 0.5%. The loans are payable on demand and are collateralized by securities owned by the Company. At December 31, 2010, there were no amounts outstanding under this line of credit.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of off-balance-sheet risks. The financial instruments include corporate equity securities. The trading of these financial instruments is conducted with other registered broker-dealers. The Company also maintains bank accounts with balances that sometimes exceed federally insured limits. The Company's exposure to credit risk associated with counterparty nonperformance on the above financial instruments is limited to the amounts reflected in the statement of financial condition.

Securities sold, not yet purchased represent obligations of the Company to deliver specified securities at the contracted price, and thereby create a liability to repurchase the securities in the market at prevailing prices. These transactions may result in off-balance-sheet risk as the Company's ultimate obligation to satisfy its obligation for securities sold, not yet purchased may exceed the amount recognized in the statement of financial condition.

10. RISKS RELATING TO THE REGULATION OF THE BUSINESS

The Company's role as a market maker at times requires it to make trades that adversely affect its profitability. In addition, as a market maker, the Company is at times required to refrain from trading for its own account in circumstances in which it may be to the Company's advantage to trade. For example, the Company may be obligated to act as a principal when buyers or sellers outnumber each other. In those instances, the Company may take a position counter to the market, buying or selling shares to support an orderly market in the affected stocks. In order to perform these obligations, the Company holds varying amounts of securities in inventory. In addition, market makers generally may

not trade for their own accounts when public buyers are meeting public sellers in an orderly fashion and may not compete with public orders at the same price. By having to support an orderly market, maintain inventory positions, and refrain from trading under some favorable conditions, the Company is subject to a high degree of risk. Additionally, regulators, including stock exchanges, periodically amend their rules and may make the rules governing the Company's activities as a market maker more stringent or may implement other changes, which could adversely affect its trading revenues.

11. COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

From time to time, the Company has been threatened with, or named as a defendant in, lawsuits, arbitrations, and administrative claims. Such matters that are reported to regulators such as the SEC, FINRA, or others are investigated by such regulators, and may, if pursued, result in formal arbitration claims being filed against the Company and/or disciplinary action being taken against the Company by regulators. Any such claims or disciplinary actions that are decided against the Company could harm the Company's business. The Company is also subject to periodic regulatory audits and inspections which could result in fines or other disciplinary actions. Unfavorable outcomes, in such matters, may result in a material impact on the Company's financial position.

The Company has provided a guarantee to its clearing brokers. Under the agreement, the Company has agreed to indemnify the clearing brokers for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company's liability under these arrangements is not quantifiable. However, management believes the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no amounts are recorded on the statement of financial condition for these contingent liabilities.

* * * * *

February 23, 2011

E*TRADE Capital Markets, LLC
440 South LaSalle Street
Chicago, IL 60605

To the Board of Managers and Member of E*TRADE Capital Markets, LLC:

In planning and performing our audit of the financial statements of E*TRADE Capital Markets, LLC (the "Company"), a wholly owned subsidiary of E*TRADE Institutional Holdings, Inc., a direct, wholly owned subsidiary of E*TRADE Financial Corporation, as of and for the year ended December 31, 2010 (on which we issued our report dated February 23, 2011 and such report expressed an unqualified opinion on those financial statements), in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following: (1) making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); (2) making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; (3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and (4) obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Managers, management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Delella & Tanche Up



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Managers of
E*TRADE Capital Markets, LLC
440 South LaSalle Street, Suite 3030
Chicago, IL 60605

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2010, which were agreed to by E*TRADE Capital Markets, LLC (the "Company") and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the Form SIPC-7. The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries and copies of checks made payable to SIPC, noting no differences.
2. Compared the total rounded revenue amounts of the audited Form X-17A-5 for the year ended December 31, 2010, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2010 noting no differences.
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences.
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences.
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7T on which it was originally computed noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

DeLitt & Tancher

February 23, 2011

SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION

P.O. Box 92185 Washington, D.C. 20090-2185

202-371-8300

General Assessment Reconciliation

SEC Mail Processing
Section**SIPC-7**

(33-REV 7/10)

For the fiscal year ended December 31, 2010

(Read carefully the instructions in your Working Copy before completing this Form)

FEB 28 2011

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

Washington, DC

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

053174 FINRA DEC
E*TRADE CAPITAL MARKETS LLC 10*10
ATTN: JAMES ROJEK
440 S LASALLE ST STE 3030
CHICAGO IL 60605-5019

Note: If any of the information shown on the mailing label
requires correction, please e-mail any corrections to
form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact
respecting this form.

2. A. General Assessment (item 2e from page 2)

\$ 199,697

B. Less payment made with SIPC-6 filed (exclude interest)

(105,927)

July 26, 2010
Date Paid

C. Less prior overpayment applied

(150)

D. Assessment balance due or (overpayment)

93,620

E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum

0

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 93,620

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC
Total (must be same as F above)

\$ 93,620

H. Overpayment carried forward

\$()

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the
person by whom it is executed represent thereby
that all information contained herein is true, correct
and complete.

E*TRADE CAPITAL MARKETS LLC

(Name of Corporation, Partnership or other organization)

James H. Rojek

(Authorized Signature)

CFO

(Title)

Dated the 3rd day of February, 20 11.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form
for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates:

Postmarked _____

Received _____

Reviewed _____

Calculations _____

Documentation _____

Forward Copy _____

Exceptions:

Disposition of exceptions:

DETERMINATION OF "SIPC NET OPERATING REVENUES" AND GENERAL ASSESSMENT

Amounts for the fiscal period
beginning January 1, 2010
and ending December 31, 2010
Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$103,366,861

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

Total additions

0

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):

23,446,575

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ 41,606

- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ _____

Enter the greater of line (i) or (ii)

Total deductions

41,606

23,488,181

2d. SIPC Net Operating Revenues

\$79,878,680

2e. General Assessment @ .0025

\$199,697

(to page 1, line 2.A.)